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UNCLAS SECTION 01 OF 02 KUWAIT 000111

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E.O. 12958: N/A
TAGS: ENRG EPET ECON BEXP KU OIL SECTOR
SUBJECT: KUWAIT GULF OIL COMPANY GETS NEW RESPONSIBILITIES

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¶1. (SBU) Summary: Kuwait Gulf Oil Company (KGOC) Manager for Fields Development and Planning Qasim Al-Mejadi told Econ Officer January 8 that KGOC has completely taken over KOC's management of the onshore oil fields in the divided zone between Kuwait and Saudi Arabia, as of January 1. He said that Saudi Arabian Texaco, the joint partner in the divided zone operations, would "not feel any difference" in the transfer of the operations from KOC to KGOC. He referred to the onshore part of the divided zone as "maxed out" in terms of production, and said that any further production increase would have to come from technical expertise provided by IOCs. Al-Mejadi was evasive on KGOC's role in any drilling and exploration in the offshore Durra gas field, but did say that it would be a "good thing" if the offshore boundary with Iran were to be delineated clearly. End Summary.

KGOC: A Brief History

¶2. (U) Econ Officer met January 8 with Kuwait Gulf Oil Company (KGOC) Manager for Fields Development and Planning Qasim Al-Mejadi. KGOC is a new company, established in 2002, and is one of the subsidiaries of the state-owned Kuwait Petroleum Corporation (KPC). KGOC is primarily responsible for representing Kuwait in the exploration and production within the offshore divided zone between Kuwait and Saudi Arabia. (For a map of the offshore divided zone showing the oilfields, see the Embassy Kuwait SIPRNet site - http://www.state.sgov.gov/p/nea/kuwait/ - and click on the "Oilfield Maps" link in the "Picture Galleries" portlet.)

Background Of The Offshore Concession

¶3. (U) In 1957, the Kingdom of Saudi Arabia (KSA) and the Japan Petroleum Trading Company Ltd signed a concession agreement for the Japanese company to operate KSA's portion of the offshore divided zone. The Arabian Oil Company (AOC) was formed out of this agreement in 1958. That same year, AOC received the concession to operate Kuwait's portion of the offshore divided zone and commenced a seismic survey of the entire offshore concession area. Production from the large Khafji offshore oilfield began in 1960. AOC's concession for the KSA portion of the offshore zone expired in 2000 and was not renewed. The Aramco Gulf Operations Company (AGOC) was formed to take over AOC's operations. In anticipation of the 2003 expiration of the AOC concession for the Kuwaiti portion of the offshore divided zone, Kuwait formed KGOC in 2002. The Kuwaiti AOC concession expired in 2003 and was not renewed, and KGOC stepped in to take over AOC's operations. The offshore divided zone is now jointly operated by KGOC and AGOC. The offshore zone averages about 270,000 bpd in crude production and about 87 million square cubic feet of gas production per day.

KGOC Expands Into Onshore Operations

¶4. (U) On March 1, 2005, the Ministry of Energy and KPC decided that KGOC should take over the onshore divided zone operations from Kuwait Oil Company (KOC), another KPC subsidiary. KOC had been operating the Kuwaiti portion of the onshore zone; the Saudi portion of the onshore zone is operated by Saudi Arabian Texaco, a Chevron subsidiary. The onshore operations, referred to as the Wafra Joint Operations after the largest field in the zone, produces about 280,000 bpd. The assets and responsibilities of KOC for the onshore divided zone were transferred to KGOC over the past ten months.

¶5. (SBU) Al-Mejadi said that KGOC has completely taken over the onshore divided zone operations from KOC as of January 1, and that all of the necessary employees had been transferred from KOC to KGOC. He added that KOC would continue to handle the crude, since KGOC did not have any crude-handling facilities, but KGOC would be responsible for all production

and development. He said that most KGOC employees, including himself, were previously with KOC, and that KGOC now has about 900 employees.

¶6. (SBU) Asked about the impact of the transfer on Saudi Arabian Texaco (SAT), the partner in the joint onshore operations, Al-Mejadi said that he did not think that SAT would "feel any difference" and that operations would continue as normal. He said that KGOC had to keep all the onshore and offshore operations separate, since the partners were different in each one, but that KGOC could transfer technology and people between the two operations.

Onshore "Maxed Out"

¶7. (SBU) Al-Mejadi said that there are "more opportunities in the offshore zone" for increasing production capacity, but that the onshore zone is "maxed out." He said that any future production increase in the onshore divided zone would "require the expertise of IOCs, especially for the heavy oil." He said that getting the heavy oil from the Wafra field would continue to be "a big challenge" that required "bringing in new technology." He did not have any thoughts on whether SAT's concession with the KSA, due to expire in 2009, would be renewed.

Durra and Iran

¶8. (SBU) Asked about KGOC's role in drilling and exploration in the offshore Durra gas field, Al-Mejadi was evasive. He said that, if the matter was settled between Kuwait, Saudi Arabia and Iran, then KGOC would be the one to operate the Durra field. For now, he said, KGOC was only conducting seismic studies. Later in the conversation, Al-Mejadi said that it would be a "good thing" if the offshore boundary with Iran were to be delineated clearly, that this would allow KGOC to get on with exploration and drilling in the Durra field.

Kuwait Project, Privatization, New Oil Service Companies
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¶9. (SBU) Al-Mejadi offered his opinion on other issues facing the Kuwaiti oil sector. On the development of the northern oilfields (Kuwait Project), he said that the enabling legislation "should pass" through Parliament. He said it was important to develop the northern oilfields because the oil in this area was "known oil" and was part of what Kuwait was counting on to reach 4 million bpd of production by 2020. On privatization, Al-Mejadi said that he expected further privatization efforts within a few of the KPC subsidiaries, including KNPC (gas stations and refineries), KOTC (oil tankers and gas cylinders), PIC (petrochemicals), and KUFPEC (Kuwait's foreign exploration arm.) He did not expect any privatization in KGOC or KOC, Kuwait's internal upstream development and production companies.

¶10. (SBU) Asked about a seeming increase in the number of new start-up oilfield service companies that have sprouted lately in the local economy, Al-Mejadi suggested a number of reasons for the new companies. He said that Kuwaitis like to "follow the leader" and as soon as one company was started, a number of similar companies would follow. He did not think that many of them would make any money but were started for the purpose of being able to list on the Kuwait Stock Exchange and make money from speculation in their share prices. He said that the Kuwait Project and other privatization efforts may have provided some motivation for the establishment of these new companies, but that it was mostly a "reaction to high price of oil."

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